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UNCLAS SECTION 01 OF 03 DJIBOUTI 001042

SIPDIS

USITC FOR L. SCHLITT

E.O. 12958: N/A

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SUBJECT: INFORMATION FOR USITC STUDY ON U.S.

SUB-SAHARAN AFRICAN TRADE AND INVESTMENT

REF: A.STATE 137500

[1](#)B. DJIBOUTI 856

Introduction

[1](#)1. Good management and foreign assistance have greatly contributed to a healthier economy in Djibouti. Hosting the COMESA conference in 2005 will give the Government of Djibouti (GOD) an opportunity to promote its liberal economic regime and the port of Doraleh, which is expected to jump start trade in the region. The fishing port was conceded to foreign management and the railway company is following in its footsteps. IGAD's main achievement continues to be its sustained role in the positive development of both the Somali and Sudanese peace processes.

Major Economic Development

[1](#)2. Amarreh Ali, Chief Economist at the Ministry of Finance and Economy, holds that vigorous management and financial aid from the USG and France have significantly ameliorated Djibouti's economy. It has resulted in the first positive real growth (3.5%) in more than a decade. Also, strong partnership with the IMF led to a Staff Monitored Program (SMP) for the year 2004. The SMP consists of an informal agreement between GOD and IMF staff to monitor the implementation of the GOD's economic program for a period of one year. This SMP will follow up the completion of the reforms required by the IMF in the first Enhanced Structural Adjustment Facility (ESAF), in particular. There will also be some additional measures such as a Code of Commerce and a Labor Code. The Memorandum of Economic and Financial Policies (MEFP) signed between the IMF and the GOD contains a detailed list of tasks. The GOD is required to prepare progress reports on a regular basis. The SMP is expected to restore GOD's credibility to the donors.

[1](#)3. Moreover, the IMF validated the GOD Poverty Reduction Strategy Papers (PRSPs) in June 2004. The PRSP aims at reducing poverty and unemployment by improving living conditions for all the population. This document was elaborated with the contributions of government agencies, civil societies, trade unions and private sector representatives. It offers a comprehensive strategic framework to be implemented over horizons, 2006, 2010 and [1](#)2015. Improvements in the medium range include: reduction of the extreme poverty rate of 42.25% in 2002 to 36.1% by 2006; sustained real GDP growth average to 4.6% during 2004-2006; increase of the schooling rate of 42.7% in 2002 to 73% by 2006; and decrease of infant death rate from 103.1 per 1000 to 75 per 1000 by 2006. Malik Garad, Chief Economist at the Central Bank, indicated that a consultative meeting of international organizations is scheduled for December 2004 to prepare for a donors round table to be held in the first quarter of 2005.

Major Trade Development

[1](#)4. In June 2004, the "Societe Djiboutienne du Terminal Vraquier" (STDV) owned by a Saudi Investor, started the construction of a bulk grain terminal at the port of Djibouti. This project consists of two warehouses for grains and fertilizers, 12 packing units and two large cranes. It should be completed in two years and has the objective of speeding up the unloading of food aid and fertilizers, which will make the port more competitive.

[1](#)5. The construction of a new port in Doraleh remains the most important project in Djibouti. The project includes three phases: 1) an oil terminal, 2) a container terminal and 3) a large commercial/industrial free zone. The GOD awarded management of its ports to Dubai Port Authorities, which considers Doraleh Port as an extension of Dubai port. The oil terminal is expected to be operational by June [1](#)2005. Seawater depth of more than twenty meters will allow Doraleh Port to accommodate fourth generation ships carrying up to 8,000 containers. The GOD is convinced that this

investment will generate tremendous economic benefits to the country. Please read ref B for more details on the oil terminal.

16. Tenders for the Livestock Project are scheduled for August 2004 according to Mohamed Omar, Secretary General at the Chamber of Commerce. Livestock from the region, but mainly from Somalia/Somaliland and Ethiopia, would be quarantined in Djibouti and shipped to Gulf countries. The GOD is discussing intensely with the Gulf Countries the possibility of lifting the ban on livestock from the region. The project site, which covers 300 acres, is situated near the border with Somaliland to allow animals to be delivered by trucks. Animals from Ethiopia could either come by truck or by railroad. The project includes a pre-quarantine inspection area, a quarantine facility and a pre-shipping final inspection plot located at the port. Ron Omar, Livestock Project Coordinator at the Ministry of Commerce, is satisfied that this USAID funded project should become operational by the end of 2004.

COMESA

17. By hosting the COMESA Conference in 2005, the GOD intends to promote its liberal economic regime and the Port of Doraleh. During its presidency in 2005, the GOD is determined to convince COMESA countries that Djibouti is the natural gateway to their market. Djibouti would like especially to attract land locked countries such as Uganda, Malawi and Rwanda. Unlike most COMESA countries, Djibouti does not have an agriculture base but has to rely on services. Abdoulrazak Idriss, COMESA Focal Point at the Ministry of Commerce, said that the adoption of a common external tax policy remained the main issue covered in the last COMESA Conference held in Uganda in June 2004. A number of countries have not finalized studies of the impact of this new tax policy on their individual economies. For instance, Djibouti gets 24% of its GDP from tax income so it needs a clear measurement of the impact of this new tax policy. Mr. Idriss said Djibouti is not well integrated in the COMESA partly because most of the COMESA state members are English speaking, which causes a problem of communication. He added that the Djiboutian business community is not well informed about the opportunities offered by COMESA.

IGAD

18. Continued efforts from IGAD greatly contributed to positive developments in the peace process both in Sudan and Somalia. As a result, the Sudanese government and the Sudan People's Liberation Movement signed a power sharing agreement in May 2004. The Somali National Reconciliation Conference (SNRC), held in Kenya is in its last phase of seat attributions in the new Parliament. The African Union agreed with IGAD in sending observers and a peacekeeping force in Somalia if a new government is established in Mogadishu. In an effort to assist the SNRC, IGAD organized a two-day conference in Djibouti for the Somali business community on July 21 - 22, 2004 to obtain its commitment to support financially a new government in Somalia. Other IGAD activities included the reappointment of Dr. Attala Hamad Bashir, IGAD Executive Secretary, for a second term, the validation of a five year (2004-2008) strategy, the reinforcement of the Conflict Early Warning and Response Mechanism (CEWARN), preparation of a regional strategy on terrorism and mainstreaming gender in the SNRC. Finally, IGAD continued also to work in its core priorities such as desertification and food security.

Country Privatization Efforts

19. Serious financial and technical difficulties caused by old machinery and harsh competition from Ethiopian trucking companies led the GOD and Ethiopia, the Railway co-owners to the decision to concede the company to foreign management for a transitional two-year period. On July 22, 2004, the Board of Directors pre-selected six foreign firms, which will soon receive the tender. The European Union, which has been holding back an approved 40 million Euro grant (approx. USD 48.6 million) for many years is planning to release the funding during the transitional period to modernize the Railway Company.

10. In April 2004, the GOD conceded its fishing port to a private firm, Djibouti Maritime Management Investment (DMMI). DMMI's objective is to maximize existing fish production capabilities of the port to satisfy the local market first. Then, DMMI plans to eventually target markets in the Arab Gulf States, Europe and USA.

AGOA

¶11. No exports were made as a result of AGOA because of the lack of factories in Djibouti. However, the port of Doraleh represents a huge potential for AGOA.

Economic and Trade Data Update

¶12. The following data, obtained from the Ministry of Finance and the Central Bank, are useful for updating the data on the ITC website for the year 2003.

Economic Indicators

GDP (nominal, Dfr bn): 111.0
GDP (US\$ bn): 0.63
CPI Inflation (annual average; %): 2.0
Goods Exports (US\$ mn): 89.0
Goods Imports (US\$ mn): 338.2
Trade Balance (US\$ mn): (- 249.2)
Current Account Balance (US\$ mn): (-47.4)
Foreign Exchange Reserves (US\$ mn): 100.9
Total External Debt (US\$ mn): 426.5
Exchange Rate (Dfr/US\$): 177.7

Origins of GDP

Primary: 3.1%
Secondary (construction & public works): 6.2%
Secondary (other): 8%
Tertiary (transport & communications): 24.7%
Tertiary (other): 57.7%

Real GDP Growth Rate: 3.5%

Main Trade Commodities (US\$ mn)

Exports
Re-exports: 72.0
Locally produced goods: 17.0
Imports
Food & beverages: 87.66
Qat: 20.12
Petroleum products: 27.88
Machinery: n/a

Net Foreign Investment (US\$ mn): 21.4

RAGSDALE